

ORIGINAL

# OPEN MEETING



0000093054

## MEMORANDUM RECEIVED

Arizona Corporation Commission

TO: THE COMMISSION

7009 DEC 31 P 3:40

DOCKETED

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

DEC 31 2008

DATE: December 31, 2008

DOCKETED BY	
-------------	--

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY TO IMPLEMENT AN ARSNIC COST RECOVERY MECHANISM FOR ITS SUN CITY WEST WATER DISTRICT (DOCKET NOS. W-01303A-05-0280, WS-01303A-02-0867, WS-01303A-02-0869 AND WS-01303A-02-0870)

### I. Introduction

Pursuant to Decision No. 68310,<sup>1</sup> Arizona-American Water Company ("Company", "Applicant" or "AAW") filed an application on April 30, 2008, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step Two of its Sun City West Water District ("District") Arsenic Cost Recovery Mechanism ("ACRM"). On December 16, 2008, the AAW filed a revised application with the Commission.

The monthly arsenic surcharge per customer was established to aid the Company in its efforts to comply with the United States Environmental Protection Agency's ("EPA") new arsenic maximum contaminant level of 10 particles per billion ("ppb") which went into effect on January 23, 2006. The EPA reduced the drinking water standard for arsenic from 50 ppb to 10 ppb effective January 23, 2006.

Pursuant to Decision No. 68310, Arizona American Water Company filed the required schedules for Commission approval prior to the implementation of the ACRM.

### II. Background

On November 22 and December 13, 2002, the AAW filed applications with the Arizona Corporation Commission ("Commission") for fair value determinations of its utility plant and for permanent rate increases for ten of its districts (Sun City West Water, Sun City West Wastewater, Sun City Water, Sun City Wastewater, Mohave Water, Havasu Water, Anthem Water, Agua Fria Water, Anthem/Agua Fria Wastewater and Tubac Water). On June 30, 2004, the Commission issued Decision No. 67093 establishing permanent rates for these ten districts.

On February 15, 2005, the Commission issued Decision No. 67593 granting the Company's request to reopen the record in its rate case concluded by Decision No. 67093 for the

---

<sup>1</sup> Issued November 14, 2005.

limited purpose of serving as evidentiary basis for future ACRM filings for the affected Arizona-American water districts.

By Procedural Order issued March 29, 2005, Arizona-American was directed to file a new application indicating the relief sought regarding the ACRM, and to consolidate the new application with those existing dockets from Decision No. 67093 that would be affected by the specific relief request in its filing.

On April 15, 2005, the AAW filed an application (Docket No.W-01303A-05-0280) for authority to implement ACRMs for its Agua Fria Water, Sun City West Water, Havasu Water, and Tubac Water Districts. On May 4, 2005, the Company filed a Motion to Delete the Tubac Water District from its application. By Procedural Order issued May 6, 2005, the Company's request to delete the Tubac Water District from its application was approved.

The Commission issued Decision No. 68310 granting the Company's application for authority to implement an Arsenic Cost Recovery Mechanism in its Agua Fria Water, Sun City West Water and Havasu Water Districts and a Havasu District Arsenic Impact Fee Tariff subject to the terms and conditions contained in that Decision.

On August 30, 2006, AAW filed an application with the Commission requesting authorization to implement Step-One of the ACRM for its Sun City Water District. On December 5, 2006, the Commission issued Decision No. 69173 granting AAW the authority to implement Step-One of its ACRM.

The Step-One surcharge added \$3.70 to the monthly customer charge for a customer with a 5/8-inch meter and \$0.4592 per 1,000 gallons to the commodity rate. The average residential customer bill (with usage of 10,023 gallons) increased by approximately \$8.31 (or 48.85 percent) from \$17.01 to \$25.32.

### **III. Company's Current Application**

AAW filed an application to implement a Step-Two of its ACRM on April 30, 2008. The Step-Two application sought to recover eligible arsenic related O&M cost and net additional arsenic related plant not included in the Step-One surcharge. On December 16, 2008, AAW filed a revised application with the Commission. The revised Step-Two ACRM application seeks only to recover eligible arsenic related O&M cost.

The Company's present application proposes to maintain the Step-One ACRM surcharge and supplement it with a Step-Two ACRM surcharge. The Step-Two surcharge is composed of permanent or on-going components and temporary (12-months) components. The permanent portion includes a \$0.36 monthly customer charge and a \$0.0439 per 1,000 gallons commodity rate, and the temporary portion includes a \$0.36 monthly customer charge and a \$0.0439 per

1,000 gallons commodity rate.<sup>2</sup> The permanent components provide for recovery of on-going recoverable arsenic O&M expenses. The temporary components provide for recovery of deferred recoverable arsenic O&M expenses that the Company incurred for 12 months beginning with the operation of the arsenic remediation. Decision No. 68310 provides for the Company to defer recoverable O&M expenses and recover the deferred amount over 12 months. The permanent components would remain effective until rates are established in a future rate case. The temporary components would expire 12 months subsequent to their implementation date.

Under the Company's Step-Two proposal, the average residential customer bill (with usage of 9,430 gallons)<sup>3</sup> would increase by approximately \$1.54 from \$24.28 to \$25.82 (6.4 percent) over the Step-One bill in the initial 12-month period until the temporary components expire. At the end of the initial 12-month period, the average residential customer bill would decrease by \$0.77 from \$25.82 to \$25.05 (3.0 percent). The permanent and temporary Step-Two amounts combined with the Step-One amounts approved by Decision No. 69173 would result in total ACRM charges of \$10.29 to the average residential customer bill composed of \$4.42<sup>4</sup> for the monthly customer charge and \$5.16 (\$0.5470<sup>5</sup> per 1,000 gallons x 9.430 M-gallons) for commodity charges.

#### **IV. Authorization for an Arsenic Cost Recovery Mechanism (Decision No. 68310)**

Decision No. 68310 conditioned approval of an ACRM surcharge on the Company complying with all requirements discussed in the Order including the following criteria:

1. AAW shall file certain schedules described below and show the actual cost of construction of arsenic related facilities. In addition, the projected rate of return with the ACRM may not exceed authorized levels. Such schedules include an earnings test in support of the ACRM. This earnings test is to include adjustments conforming to Decision No. 67093.
2. AAW shall also file, by April 1 of each year in which it collects surcharges, a report with Docket Control showing the Company's capital structure as of each month end in the prior calendar year.
3. AAW shall file a permanent rate application no later than April 30, 2008.<sup>6</sup>
4. AAW shall apply all ACRM surcharges on a volumetric basis and equally to all usage tiers.

<sup>2</sup> These monthly customer charges pertain to 5/8-inch and 3/4-inch customers. The amount increases for larger meters.

<sup>3</sup> The average residential usage decreased from 10,023 gallons per month since the step-one application.

<sup>4</sup> \$3.70, step-one + \$0.36, permanent step-one + and \$0.36, temporary step-two = \$4.42.

<sup>5</sup> \$0.4592, step-one + \$0.0439, permanent step-two + and \$0.0439, temporary step-two = \$0.5470.

<sup>6</sup> On May 1, 2008, the Company filed a rate application for 10 of its systems including Sun City West Water using a test year ending December 31, 2007.

Decision No. 69073 granted approval of Step-One of the ACRM surcharge that was provided for in Decision No. 68310 as discussed above. While Decision No. 69073 approved the Step-One surcharge, it did not add any additional conditions that were not specified in Decision No. 69073.

**V. Staff's Analysis**

**A. ACRM Schedules**

The Company's ACRM Step-Two filing includes the following schedules:

1. Balance Sheet – as of December 31, 2007.
2. Income Statement – period ending December 31, 2007.
3. Income Statement Adjustments (Earnings Test) – to conform to Decision No. 67093.
4. Rate Review – a rate review filing for the District.
5. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for Step-Two.
6. Surcharge Calculation – a detailed calculation for all permanent and temporary surcharge components for the District.
7. Rate Base – a schedule showing the elements and the calculation of the rate base as of December 31, 2007.
8. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the construction work in progress account.
9. Four Factor Allocation – a schedule showing the allocation factors to be used for expense allocation. The “four factors” include ratios of each system's Plant in Service, General Metered Customers, Salaries and Wages, and Direct O&M, excluding labor, as they relate to the total for all systems. A schedule showing the allocation of common plant and based on the relative customer counts is also included in the application.
10. Typical Bill Analysis – ACRM Step 2 – A typical bill analysis showing the effects on 5/8-inch meter residential customers at the average residential usage of at 9,430 gallons for Sun City West Water customers.

The above schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule to limit the ACRM Step-Two revenue to an amount that would not result in a rate of return exceeding the rate authorized in Decision No. 67093.

**B. Filing Requirements Compliance**

Staff does not note any deficiencies related to the Company's ACRM filing.

**C. Staff's Adjustments To Company Schedules**

Staff recommends adjustment to the Company's schedules to correct for an error in recording an operating expense that resulted in a \$19,463 overstatement of expenses. The adjustment is shown on the attached Schedule BCA-3 and has the net effect of reducing revenue requirements by \$19,463 from the Company's proposed amount of \$175,096 to \$155,633. The ACRM plant is discussed in the attached Engineering Report.

The Staff recommended adjustment on Schedule BCA-3 would reduce the revenue requirement by \$19,463. The calculation of surcharges using Staff's recommended revenue requirement is shown on BCA-4.

Under Staff's Step-Two recommendation, the previously approved Step-One surcharges (\$3.70 monthly customer charge for 5/8-inch residential customers)<sup>7</sup> and \$0.4592 per thousand gallons commodity rate for all customers are supplanted by the Step-Two surcharges. Using Staff's recommended Step-Two revenue requirement, the monthly customer charge increases to \$4.34 and the commodity rate per thousand gallons for all customers increases to \$0.5373 and the average residential customer bill (with usage of 9,430 gallons) increases by approximately \$1.37 from \$24.28 to \$25.65 (5.7 percent) over the Step-One level in the initial 12-month period until the temporary components expire.<sup>8</sup> The permanent portion of the Step-Two ACRM surcharge contributes to \$0.69 of the \$1.37 increase. At the end of the initial 12-month period, the monthly customer charge would decrease by \$0.32 and the commodity rate per thousand gallons decreases by \$0.0391 and the average residential customer bill would decrease by \$0.69 from \$25.65 to \$24.96 (2.7 percent).

Staff recommends further clarification regarding the recovery of deferred O&M expenses. Staff notes that the Company seeks recovery of deferred O&M as provided for in Decision No. 68310 but the supporting schedules in its present application do not clearly state that these amounts will cease at the end of a 12 month recovery period. If this application is approved, provision should be made so that the recovery of deferred O&M expenses cease after the 12 month recovery period.

---

<sup>7</sup> The monthly customer charge increases for larger meters.

<sup>8</sup> The temporary components provide recovery of deferred O&M expenses.

As shown in Schedule BCA-1, Staff recommends approval of a single permanent Step-Two ACRM surcharge that supplants and absorbs the previously approved Step-One ACRM surcharge and adds on-going, recoverable, and arsenic related O&M expenses to remain in effect until the effective date of new rates established in the pending rate case.

## **VI. Conclusions and Recommendations**

The Company's application contains filed schedules that conform to the requirements of Decision No. 68310. Staff concludes that the ACRM schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would not result in a rate of return exceeding that authorized in Decision No. 67093.

Staff concludes that the Company has adequately supported the amounts requested for recovery of its O&M expenses with one exception. Staff has made an adjustment to Step-Two of the Company's O&M expenses as shown in Schedule BCA-3 to account for this exception. Staff further concludes that neither Decision No. 68310 nor Decision No. 66400 prohibits the recognition of additional arsenic related plant subsequent to the implementation of Step-One, as asserted by the Residential Utility Consumers Office ("RUCO").

As shown in Schedule BCA-1, Staff recommends approval of a single permanent Step-Two ACRM surcharge that supplants and absorbs the previously approved Step-One ACRM surcharge and adds on-going, recoverable, and arsenic related O&M expenses to remain in effect until the effective date of new rates established in the pending rate case.

Staff further recommends approval of a temporary Step-Two ACRM surcharge as shown on Schedule BCA-1 to recover the deferred O&M expenses as authorized in Decision No. 68310. This temporary surcharge will cease 12 months subsequent to the effective date of the surcharge established in this proceeding.

Staff further recommends that the Company file with the Commission an arsenic remediation surcharge tariff consistent with Schedule BCA-1 separately showing the on-going and 12-month amounts.

Staff concludes that Arizona-American Company has already complied with the requirement to file permanent rate applications for its Sun City West District no later than September 30, 2008.

THE COMMISSION

December 31, 2008

Page 7

Staff recommends that AAW notify its customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of this Decision.



for

Ernest G. Johnson  
Director  
Utilities Division

EGJ:BCA:lhv\AH

ORIGINATOR: Brendan Aladi

STAFF RECOMMENDED

	[A] Dec. No. 67093 (No ACRM)	[B] Dec. No. 69173 (ACRM 1)	[C]	[D] Total Current Rates	[E]	[F]	[G]
Monthly Minimum Charges							
Minimum 5/8" Meter	\$ 5.87	\$ 3.70		\$ 9.57			
Minimum 3/4" Meter	\$ 5.87	\$ 3.70		\$ 9.57			
Minimum 1" Meter	\$ 14.97	\$ 9.43		\$ 24.40			
Minimum 1 1/2" Meter	\$ 32.08	\$ 20.20		\$ 52.28			
Minimum 2" Meter	\$ 47.05	\$ 29.63		\$ 76.68			
Minimum 3" Meter	\$ 81.26	\$ 51.17		\$ 132.43			
Minimum 4" Meter	\$ 120.82	\$ 76.08		\$ 196.90			
Minimum 6" Meter	\$ 165.73	\$ 104.35		\$ 270.08			
Minimum 8" Meter	\$ 374.23	\$ 235.87		\$ 610.10			
Commodity Rates, Per 1000 gallons							
Residential (5/8-inch and 3/4-inch):							
0 to 4,000 gallons	\$ 0.8500	\$ 0.4592		\$ 1.3092			
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.4592		\$ 1.7442			
15,001 gallons and over	\$ 1.5510	\$ 0.4592		\$ 2.0102			
All Others:							
0 to 15,000 gallons	\$ 1.2850	\$ 0.4592		\$ 1.7442			
15,001 gallons and over	\$ 1.5510	\$ 0.4592		\$ 2.0102			
Pending Application - 12-months	Per Decision and 67093	Dec. No. 69173 (ACRM 1)	ACRM - Step 2 On-going O&M	Total On-going ACRM (Col. B + Col. C)	ACRM - Step 2 Deferred 12-month O&M	ACRM - Step 2 Combined On-going & 12-month	ACRM - Step 2 12-month Total Rates
Monthly Minimum Charges							
Minimum 5/8" Meter	\$ 5.87	\$ 3.70	\$ 0.32	\$ 4.02	\$ 0.32	\$ 4.34	\$ 10.21
Minimum 3/4" Meter	\$ 5.87	\$ 3.70	\$ 0.32	\$ 4.02	\$ 0.32	\$ 4.34	\$ 10.21
Minimum 1" Meter	\$ 14.97	\$ 9.43	\$ 0.81	\$ 10.24	\$ 0.81	\$ 11.05	\$ 26.02
Minimum 1 1/2" Meter	\$ 32.08	\$ 20.20	\$ 1.74	\$ 21.94	\$ 1.74	\$ 23.67	\$ 55.75
Minimum 2" Meter	\$ 47.05	\$ 29.63	\$ 2.55	\$ 32.18	\$ 2.55	\$ 34.73	\$ 81.78
Minimum 3" Meter	\$ 81.26	\$ 51.17	\$ 4.40	\$ 55.57	\$ 4.40	\$ 59.97	\$ 141.23
Minimum 4" Meter	\$ 120.82	\$ 76.08	\$ 6.54	\$ 82.62	\$ 6.54	\$ 89.17	\$ 209.99
Minimum 6" Meter	\$ 165.73	\$ 104.35	\$ 8.97	\$ 113.32	\$ 8.97	\$ 122.30	\$ 288.03
Minimum 8" Meter	\$ 374.23	\$ 235.87	\$ 20.27	\$ 256.14	\$ 20.27	\$ 276.40	\$ 650.63
Commodity Rates, Per 1000 gallons							
Residential (5/8-inch and 3/4-inch):							
0 to 4,000 gallons	\$ 0.8500	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 1.3873
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 1.8223
15,001 gallons and over	\$ 1.5510	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 2.0883
All Others:							
0 to 15,000 gallons	\$ 1.2850	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 1.8223
15,001 gallons and over	\$ 1.5510	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 2.0883
Pending Application - On-going	Per Decision and 67093			Total On-going ACRM		ACRM - Step 2 On-going Total Rates	
Monthly Minimum Charges							
Minimum 5/8" Meter	\$ 5.87			\$ 4.02		\$ 9.89	
Minimum 3/4" Meter	\$ 5.87			\$ 4.02		\$ 9.89	
Minimum 1" Meter	\$ 14.97			\$ 10.24		\$ 25.21	
Minimum 1 1/2" Meter	\$ 32.08			\$ 21.94		\$ 54.02	
Minimum 2" Meter	\$ 47.05			\$ 32.18		\$ 79.23	
Minimum 3" Meter	\$ 81.26			\$ 55.57		\$ 136.83	
Minimum 4" Meter	\$ 120.82			\$ 82.62		\$ 203.44	
Minimum 6" Meter	\$ 165.73			\$ 113.32		\$ 279.05	
Minimum 8" Meter	\$ 374.23			\$ 256.14		\$ 630.37	
Commodity Rates, Per 1000 gallons							
Residential (5/8-inch and 3/4-inch):							
0 to 4,000 gallons	\$ 0.8500			\$ 0.4983		\$ 1.3483	
4,001 to 15,000 gallons	\$ 1.2850			\$ 0.4983		\$ 1.7833	
15,001 gallons and over	\$ 1.5510			\$ 0.4983		\$ 2.0493	
All Others:							
0 to 15,000 gallons	\$ 1.2850			\$ 0.4983		\$ 1.7833	
15,001 gallons and over	\$ 1.5510			\$ 0.4983		\$ 2.0493	



Company Proposed

Monthly Minimum Charges	Dec. No. 67093 (No ACRM)	Dec. No. 69173 (ACRM 1)	Total Current Rates
Minimum 5/8" Meter	\$ 5.87	\$ 3.70	\$ 9.57
Minimum 3/4" Meter	\$ 5.87	\$ 3.70	\$ 9.57
Minimum 1" Meter	\$ 14.97	\$ 9.43	\$ 24.40
Minimum 1 1/2" Meter	\$ 32.08	\$ 20.20	\$ 52.28
Minimum 2" Meter	\$ 47.05	\$ 29.63	\$ 76.68
Minimum 3" Meter	\$ 81.26	\$ 51.17	\$ 132.43
Minimum 4" Meter	\$ 120.82	\$ 76.08	\$ 196.90
Minimum 6" Meter	\$ 165.73	\$ 104.35	\$ 270.08
Minimum 8" Meter	\$ 374.23	\$ 235.87	\$ 610.10

Commodity Rates, Per 1000 gallons

Residential (5/8-inch and 3/4-inch):

0 to 4,000 gallons	\$ 0.8500	0.4592	\$ 1.3092
4,001 to 15,000 gallons	\$ 1.2850	0.4592	\$ 1.7442
15,001 gallons and over	\$ 1.5510	0.4592	\$ 2.0102
All Others:			
0 to 15,000 gallons	\$ 1.2850	\$ 0.4592	\$ 1.7442
15,001 gallons and over	\$ 1.5510	\$ 0.4592	\$ 2.0102

Pending Application - 12-months	Per Decision Nos. 67093 & 69173	ACRM - Step 2 On-going O&M	ACRM - Step 2 Deferred 12-month O&M	ACRM - Step 2 12-month Total Rates
Monthly Minimum Charges				
Minimum 5/8" Meter	\$ 9.57	\$ 0.36	\$ 0.36	\$ 10.29
Minimum 3/4" Meter	\$ 9.57	\$ 0.36	\$ 0.36	\$ 10.29
Minimum 1" Meter	\$ 24.40	\$ 0.91	\$ 0.91	\$ 26.22
Minimum 1 1/2" Meter	\$ 52.28	\$ 1.95	\$ 1.95	\$ 56.17
Minimum 2" Meter	\$ 76.68	\$ 2.87	\$ 2.87	\$ 82.41
Minimum 3" Meter	\$ 132.43	\$ 4.95	\$ 4.95	\$ 142.34
Minimum 4" Meter	\$ 196.90	\$ 7.36	\$ 7.36	\$ 211.62
Minimum 6" Meter	\$ 270.08	\$ 10.09	\$ 10.09	\$ 290.27
Minimum 8" Meter	\$ 610.10	\$ 22.95	\$ 22.95	\$ 656.00

Commodity Rates, Per 1000 gallons

Residential (5/8-inch and 3/4-inch):

0 to 4,000 gallons	\$ 0.8500	\$ 0.0439	\$ 0.0439	\$ 0.9379
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.0439	\$ 0.0439	\$ 1.3729
15,001 gallons and over	\$ 1.5510	\$ 0.0439	\$ 0.0439	\$ 1.6389
All Others:				
0 to 15,000 gallons	\$ 1.7442	\$ 0.0439	\$ 0.0439	\$ 1.8321
15,001 gallons and over	\$ 2.0102	\$ 0.0439	\$ 0.0439	\$ 2.0981

Pending Application - On-going	Per Decision Nos. 67093 & 69173	ACRM - Step 2 On-going O&M	ACRM - Step 2 Deferred 12-month O&M	ACRM - Step 2 On-going Total
Monthly Minimum Charges				
Minimum 5/8" Meter	\$ 9.57	\$ 0.36	\$ -	\$ 9.93
Minimum 3/4" Meter	\$ 9.57	\$ 0.36	\$ -	\$ 9.93
Minimum 1" Meter	\$ 24.40	\$ 0.91	\$ -	\$ 25.31
Minimum 1 1/2" Meter	\$ 52.28	\$ 1.95	\$ -	\$ 54.23
Minimum 2" Meter	\$ 76.68	\$ 2.87	\$ -	\$ 79.55
Minimum 3" Meter	\$ 132.43	\$ 4.95	\$ -	\$ 137.38
Minimum 4" Meter	\$ 196.90	\$ 7.36	\$ -	\$ 204.26
Minimum 6" Meter	\$ 270.08	\$ 10.09	\$ -	\$ 280.17
Minimum 8" Meter	\$ 610.10	\$ 22.95	\$ -	\$ 633.05

Commodity Rates, Per 1000 gallons

Residential (5/8-inch and 3/4-inch):

0 to 4,000 gallons	\$ 0.8500	\$ 0.0439	\$ -	\$ 0.8939
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.0439	\$ -	\$ 1.3289
15,001 gallons and over	\$ 1.5510	\$ 0.0439	\$ -	\$ 1.5949
All Others:				
0 to 15,000 gallons	\$ 1.7442	\$ 0.0439	\$ -	\$ 1.7881
15,001 gallons and over	\$ 2.0102	\$ 0.0439	\$ -	\$ 2.0541

ARSENIC PLANT AND O&M EXPENSES

Line No.		Company Proposed [A]	Staff Adjustment [B]	Staff Recommended [C]
1	Arsenic Plant Revenue Requirement			
2	Gross Arsenic Plant in Service/Rate Base Step 2	\$ -	\$ -	\$ -
3	Accumulated Depreciation of Arsenic Plant (Step 1)	\$ -	\$ -	\$ -
4	Net Arsenic Plant in Service/Rate Base Step 2 (Ln.2 - Ln. 3)	\$ -	\$ -	\$ -
5	Depreciation rate on Step 2 (Sch.BCA-3 Ln.30 Col.L, Rounded)	2.78%	-	-
6	Depreciation expense Step 2 (Sch.BCA-3 Ln. 30 Col. K)	\$ -	\$ -	\$ -
7	Depreciation expense net of tax <sup>1</sup> (Ln.6 x (1-Tax Rate)	\$ -	\$ -	\$ -
8	Recoverable O&M costs - Ongoing	\$ 175,096	\$ (19,463) (1)	\$ 155,633
9	Recoverable O&M costs-Ongoing net of tax <sup>1</sup> (Ln.8 x (1-Tax Rate)	\$ 107,511	\$ (11,950) (2)	\$ 95,561
10	Arsenic Operating Income Step 2 -(Ln. 7 + Ln. 9)	\$ (107,511)	\$ (11,950)	\$ (95,561)
11	Rate of return (Ln.10 / Ln. 2)	6.50%	0.00%	6.50%
12	Required Rate of Return <sup>2</sup>	\$ -	\$ -	\$ -
13	Required Operating Income on Net Arsenic Plant in Service Step 2 (Ln.4xLn.12)	\$ 107,511	\$ 11,950	\$ 95,561
14	Operating Income deficiency Step 2 (Ln.13 - Ln. 10)	1,62863		1,62863
15	Gross revenue conversion factor <sup>2</sup>	\$ 175,096	\$ (19,463)	\$ 155,633
16	Revenue deficiency (Ln.14 x Ln.15)			
17				
18				
19				
20	Explanation of Adjustments:			
36	(1) Adjustment to remove double counted O&M expense			
37	(2) Net effect of adjustment 1			
38	<sup>1</sup> 38.5986 % tax rate per Decision No. 67093			
	<sup>2</sup> Decision No. 67093			



Arizona-American Water Company  
Sun City West Water District  
Docket No. W-01303A-05-0280 et al.  
12 Months Ending December, 2007  
Revised Typical Bill Analysis - ACRM Step-2

Schedule BCA-5

Residential Customers

Line No.	[A] Gallons Consumption	[B] Step One Present Rates	[C] Step Two 12-month Staff Recommended Rates	[D] Percent Increase
1				
2	-	\$ 9.57	\$ 10.21	6.6%
3	1,000	\$ 10.88	\$ 11.59	6.6%
4	2,000	\$ 12.19	\$ 12.98	6.5%
5	3,000	\$ 13.50	\$ 14.37	6.4%
6	4,000	\$ 14.81	\$ 15.76	6.4%
7	5,000	\$ 16.55	\$ 17.58	6.2%
8	6,000	\$ 18.30	\$ 19.40	6.0%
9	7,000	\$ 20.04	\$ 21.22	5.9%
10	8,000	\$ 21.78	\$ 23.04	5.8%
11	9,000	\$ 23.53	\$ 24.87	5.7%
	9,430	\$ 24.28	\$ 25.65	5.7%
12	10,000	\$ 25.27	\$ 26.69	5.6%
14	11,000	\$ 27.02	\$ 28.51	5.5%
15	12,000	\$ 28.76	\$ 30.33	5.5%
16	13,000	\$ 30.50	\$ 32.16	5.4%
17	14,000	\$ 32.25	\$ 33.98	5.4%
18	15,000	\$ 33.99	\$ 35.80	5.3%
19	16,000	\$ 36.00	\$ 37.89	5.2%
20	17,000	\$ 38.01	\$ 39.98	5.2%
21	18,000	\$ 40.02	\$ 42.07	5.1%
22	19,000	\$ 42.03	\$ 44.15	5.0%
23	20,000	\$ 44.04	\$ 46.24	5.0%
24	21,000	\$ 46.05	\$ 48.33	4.9%
25	22,000	\$ 48.06	\$ 50.42	4.9%
26	23,000	\$ 50.07	\$ 52.51	4.9%
27	24,000	\$ 52.08	\$ 54.60	4.8%
28	25,000	\$ 54.10	\$ 56.68	4.8%
29				
30				
31	Average Residential Consumption (1,000 Gal)	9.43		
32	Average Residential Bill	\$ 24.28	\$ 25.65	5.7%
33				
34	Monthly Minimum Rate	\$ 9.57	\$ 10.21	6.6%
35	Commodity Rate 0 to 4,000 gallons	1.3092	1.3873	6.0%
36	Commodity Rate 4,001 to 15,000 gallons	1.7442	1.8223	4.5%
37	Commodity Rate 15,001 gallons and over	2.0102	2.0883	3.9%

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 MIKE GLEASON

Chairman

3 WILLIAM A. MUNDELL

Commissioner

4 JEFF HATCH-MILLER

Commissioner

5 KRISTIN K. MAYES

Commissioner

6 GARY PIERCE

Commissioner

7  
8 IN THE MATTER OF THE APPLICATION }  
9 OF ARIZONA-AMERICAN WATER }  
10 COMPANY, AN ARIZONA }  
11 CORPORATION, FOR AUTHORITY TO }  
12 IMPLEMENT STEP TWO OF AN ARSENIC }  
13 COST RECOVERY MECHANISM FOR ITS }  
14 SUN CITY WEST WATER DISTRICT }

DOCKET NOS. W-01303A-05-0280  
WS-01303A-02-0867  
WS-01303A-02-0869  
WS-01303A-02-0870

11 DECISION NO. \_\_\_\_\_

12 **ORDER**

13  
14 Open Meeting  
15 January 13 and 14, 2009  
16 Phoenix, Arizona

16 BY THE COMMISSION:

17 **FINDINGS OF FACT**

18 **A. Introduction**

19 1. Pursuant to Decision No. 68310,<sup>1</sup> Arizona-American Water Company ("Company",  
20 "Applicant" or "AAW") filed an application on April 30, 2008, with the Arizona Corporation  
21 Commission ("Commission") requesting authorization to implement Step Two of its Sun City  
22 West Water District ("District") Arsenic Cost Recovery Mechanism ("ACRM"). On December 16,  
23 2008, the AAW filed a revised application with the Commission.

24 2. The monthly arsenic surcharge per customer was established to aid the Company in  
25 its efforts to comply with the United States Environmental Protection Agency's ("EPA") new  
26 arsenic maximum contaminant level of 10 particles per billion ("ppb") which went into effect on  
27 \_\_\_\_\_

28 <sup>1</sup> Issued November 14, 2005.

1 January 23, 2006. The EPA reduced the drinking water standard for arsenic from 50 ppb to 10 ppb  
2 effective January 23, 2006.

3 3. The United States Environmental Protection Agency ("EPA") reduced the drinking  
4 water standard for arsenic from 50 parts per billion ("ppb") to 10 ppb effective January 23, 2006.

5 4. Pursuant to Decision No. 68310, Arizona American Water Company filed the  
6 required schedules for Commission approval prior to the implementation of the ACRM.

7 **B. Background**

8 5. On November 22 and December 13, 2002, the AAW filed applications with the  
9 Arizona Corporation Commission ("Commission") for fair value determinations of its utility plant  
10 and for permanent rate increases for ten of its districts (Sun City West Water, Sun City West  
11 Wastewater, Sun City Water, Sun City Wastewater, Mohave Water, Havasu Water, Anthem  
12 Water, Agua Fria Water, Anthem/Agua Fria Wastewater and Tubac Water). On June 30, 2004, the  
13 Commission issued Decision No. 67093 establishing permanent rates for these ten districts.

14 6. On February 15, 2005, the Commission issued Decision No. 67593 granting the  
15 Company's request to reopen the record in its rate case concluded by Decision No. 67093 for the  
16 limited purpose of serving as evidentiary basis for future ACRM filings for the affected Arizona-  
American water districts.

17 7. By Procedural Order issued March 29, 2005, Arizona-American was directed to file  
18 a new application indicating the relief sought regarding the ACRM, and to consolidate the new  
19 application with those existing dockets from Decision No. 67093 that would be affected by the  
20 specific relief request in its filing.

21 8. On April 15, 2005, the AAW filed an application (Docket No. W-01303A-05-0280)  
22 for authority to implement ACRMs for its Agua Fria Water, Sun City West Water, Havasu Water,  
23 and Tubac Water Districts. On May 4, 2005, the Company filed a Motion to Delete the Tubac  
24 Water District from its application. By Procedural Order issued May 6, 2005, the Company's  
request to delete the Tubac Water District from its application was approved.

25 9. The Commission issued Decision No. 68310 granting the Company's application  
26 for authority to implement an Arsenic Cost Recovery Mechanism in its Agua Fria Water, Sun City  
27 West Water and Havasu Water Districts and a Havasu District Arsenic Impact Fee Tariff subject to  
28 the terms and conditions contained in that Decision.

1           10.     On August 30, 2006, AAW filed an application with the Commission requesting  
2 authorization to implement Step-One of the ACRM for its Sun City Water District. On December  
3 5, 2006, the Commission issued Decision No. 69173 granting AAW the authority to implement  
4 Step-One of its ACRM.

5           11.     The Step-One surcharge added \$3.70 to the monthly customer charge for a  
6 customer with a 5/8-inch meter and \$0.4592 per 1,000 gallons to the commodity rate. The average  
7 residential customer bill (with usage of 10,023 gallons) increased by approximately \$8.31 (or  
8 48.85 percent) from \$17.01 to \$25.32.

9           12.     AAW filed an application to implement a Step-Two of its ACRM on April 30,  
10 2008. The Step-Two application sought to recover eligible arsenic related O&M cost and net  
11 additional arsenic related plant not included in the Step-One surcharge. On December 16, 2008,  
12 AAW filed a revised application with the Commission. The revised Step-Two ACRM application  
13 seeks only to recover eligible arsenic related O&M cost.

14 **C.     Company's Current Application**

15           13.     The Company's present application proposes to maintain the Step-One ACRM  
16 surcharge and supplement it with a Step-Two ACRM surcharge. The Step-Two surcharge is  
17 composed of permanent or on-going components and temporary (12-months) components. The  
18 permanent portion includes a \$0.36 monthly customer charge and a \$0.0439 per 1,000 gallons  
19 commodity rate, and the temporary portion includes a \$0.36 monthly customer charge and a  
20 \$0.0439 per 1,000 gallons commodity rate.<sup>2</sup> The permanent components provide for recovery of  
21 on-going recoverable arsenic O&M expenses. The temporary components provide for recovery of  
22 deferred recoverable arsenic O&M expenses that the Company incurred for 12 months beginning  
23 with the operation of the arsenic remediation. Decision No. 68310 provides for the Company to  
24 defer recoverable O&M expenses and recover the deferred amount over 12 months. The  
25 permanent components would remain effective until rates are established in a future rate case. The  
26 temporary components would expire 12 months subsequent to their implementation date.

27 ...

28 ...

...

\_\_\_\_\_

<sup>2</sup> These monthly customer charges pertain to 5/8-inch and 3/4-inch customers. The amount increases for larger meters.

14. Under the Company's Step-Two proposal, the average residential customer bill (with usage of 9,430 gallons)<sup>3</sup> would increase by approximately \$1.54 from \$24.28 to \$25.82 (6.4 percent) over the Step-One bill in the initial 12-month period until the temporary components expire. At the end of the initial 12-month period, the average residential customer bill would decrease by \$0.77 from \$25.82 to \$25.05 (3.0 percent). The permanent and temporary Step-Two amounts combined with the Step-One amounts approved by Decision No. 69173 would result in total ACRM charges of \$10.29 to the average residential customer bill composed of \$4.42<sup>4</sup> for the monthly customer charge and \$5.16 (\$0.5470<sup>5</sup> per 1,000 gallons x 9.430 M-gallons) for commodity charges.

**D. Authorization for an Arsenic Cost Recovery Mechanism (Decision No. 68310)**

15. Decision No. 68310 conditioned approval of an ACRM surcharge on the Company complying with all requirements discussed in the Order including the following criteria:

- a. AAW shall file certain schedules described below and show the actual cost of construction of arsenic related facilities. In addition, the projected rate of return with the ACRM may not exceed authorized levels. Such schedules include an earnings test in support of the ACRM. This earnings test is to include adjustments conforming to Decision No. 67093.
- b. AAW shall also file, by April 1 of each year in which it collects surcharges, a report with Docket Control showing the Company's capital structure as of each month end in the prior calendar year.
- c. AAW shall file a permanent rate application no later than April 30, 2008.<sup>6</sup>
- d. AAW shall apply all ACRM surcharges on a volumetric basis and equally to all usage tiers.

16. Decision No. 69073 granted approval of Step-One of the ACRM surcharge that was provided for in Decision No. 68310 as discussed above. While Decision No. 69073 approved the Step-One surcharge, it did not add any additional conditions that were not specified in Decision No. 69073.

---

<sup>3</sup> The average residential usage decreased from 10,023 gallons per month since the step-one application.

<sup>4</sup> \$3.70, step-one + \$0.36, permanent step-one + and \$0.36, temporary step-two = \$4.42.

<sup>5</sup> \$0.4592, step-one + \$0.0439, permanent step-two + and \$0.0439, temporary step-two = \$0.5470.

<sup>6</sup> On May 1, 2008, the Company filed a rate application for 10 of its systems including Sun City West Water using a test year ending December 31, 2007.



1 **E. AUTHORIZATION FOR A STEP-ONE ARSENIC COST RECOVERY**  
2 **MECHANISM SURCHARGE (DECISION NO. 69396)**

3 17. Decision No. 69396 granted approval of a Step-One ACRM surcharge pursuant to  
4 the ACRM authorized in Decision No. 68858 as discussed above. Decision No. 69396 made no  
5 modifications to the ACRM as originally authorized in Decision No. 68858.

6 **F. Staff's Analysis**

7 **ACRM Schedules**

8 18. The Company's Step-Two ACRM filing includes the following schedules:

- 9 a. Balance Sheet – as of December 31, 2007.
- 10 b. Income Statement – period ending December 31, 2007.
- 11 c. Income Statement Adjustments (Earnings Test) – to conform to Decision No.
- 12 67093.
- 13 d. Rate Review – a rate review filing for the District.
- 14 e. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for
- 15 Step-Two.
- 16 f. Surcharge Calculation – a detailed calculation for all permanent and temporary
- 17 surcharge components for the District.
- 18 g. Rate Base – a schedule showing the elements and the calculation of the rate base as
- 19 of December 31, 2007.
- 20 h. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the
- 21 construction work in progress account.
- 22 i. Four Factor Allocation – a schedule showing the allocation factors to be used for
- 23 expense allocation. The “four factors” include ratios of each system's Plant in
- 24 Service, General Metered Customers, Salaries and Wages, and Direct O&M,
- 25 excluding labor, as they relate to the total for all systems. A schedule showing the
- 26 allocation of common plant and based on the relative customer counts is also
- 27 included in the application.
- 28 j. Typical Bill Analysis – ACRM Step 2 – A typical bill analysis showing the effects
- on 5/8-inch meter residential customers at the average residential usage of at 9,430
- gallons for Sun City West Water customers.

**Staff's Findings**

19. Staff found no deficiencies related to the Company's ACRM filing.

20. Staff concludes that the filed schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule to limit the ACRM Step-Two revenue to an amount that would not result in a rate of return exceeding the rate authorized in Decision No. 67093.

21. Staff further concludes that neither Decision No. 68310 nor Decision No. 66400 prohibits the recognition of additional arsenic related plant subsequent to the implementation of Step-One, as argued by the Residential Utility Consumers Office ("RUCO") as discussed below.

22. Staff further concludes that an adjustment to the Company's schedules is appropriate to correct for an error in recording an operating expense that resulted in a \$19,463 overstatement of expenses. This adjustment is shown on the attached Schedule BCA-3 and has the net effect of reducing revenue requirements by \$19,463 from the Company's proposed amount of \$175,096 to \$155,633. The ACRM plant is discussed in the attached Engineering Report. Staff concludes that the Company has adequately supported the remaining amounts requested for recovery of its O&M expenses.

23. The Staff recommended adjustment on Schedule BCA-3 would reduce the revenue requirement by \$19,463.

24. The calculation of surcharges using Staff's recommended revenue requirement is shown on BCA-4.

25. Under Staff's Step-Two recommendation, the previously approved Step-One surcharges (\$3.70 monthly customer charge for 5/8-inch residential customers)<sup>7</sup> and \$0.4592 per thousand gallons commodity rate for all customers are supplanted by the Step-Two surcharges. Using Staff's recommended Step-Two revenue requirement, the monthly customer charge increases to \$4.34 and the commodity rate per thousand gallons for all customers increases to \$0.5373 and the average residential customer bill (with usage of 9,430 gallons) increases by approximately \$1.37 from \$24.28 to \$25.65 (5.7 percent) over the Step-One level in the initial 12-month period until the temporary components expire.<sup>8</sup> The permanent portion of the Step-Two

<sup>7</sup> The monthly customer charge increases for larger meters.

<sup>8</sup> The temporary components provide recovery of deferred O&M expenses.

1 ACRM surcharge contributes to \$0.69 of the \$1.37 increase. At the end of the initial 12-month  
2 period, the monthly customer charge would decrease by \$0.32 and the commodity rate per  
3 thousand gallons decreases by \$0.0391 and the average residential customer bill would decrease by  
4 \$0.69 from \$25.65 to \$24.96 (2.7 percent).

5 26. Staff recommends further clarification regarding the recovery of deferred O&M  
6 expenses. Staff notes that the Company seeks recovery of deferred O&M as provided for in  
7 Decision No. 68310 but the supporting schedules in its present application do not clearly state that  
8 these amounts will cease at the end of a 12 month recovery period. If this application is approved,  
9 provision should be made so that the recovery of deferred O&M expenses cease after the 12 month  
10 recovery period.

11 27. As shown in Schedule BCA-1, Staff recommends approval of a single permanent  
12 Step-Two ACRM surcharge that supplants and absorbs the previously approved Step-One ACRM  
13 surcharge and adds on-going, recoverable, and arsenic related O&M expenses to remain in effect  
14 until the effective date of new rates established in the pending rate case.

15 28. Staff further recommends approval of a temporary Step-Two ACRM surcharge as  
16 shown on Schedule BCA-1 to recover the deferred O&M expenses as authorized in Decision No.  
17 68310. This temporary surcharge will cease 12 months subsequent to the effective date of the  
18 surcharge established in this proceeding.

19 29. Staff concludes that Arizona-American Company has already complied with the  
20 requirement to file permanent rate applications for its Sun City West District no later than  
21 September 30, 2008.

22 **G. RUCO's Analysis**

23 30. On June 17, 2008, RUCO filed a Report on its audit of the initial ACRM  
24 application<sup>9</sup> and recommends two adjustments. Citing Decision No. 68310, RUCO states that  
25 recovery of incremental plant not included in the Step-one surcharge is not authorized. RUCO  
26 also cites Decision No. 66400 to support its assertion that recover of incremental plant is not

27 \_\_\_\_\_  
28 <sup>9</sup> RUCO did not file comments on the revised application.

1 authorize, but it does not specify which part of the application is not conforming with this  
2 Decision. Accordingly, RUCO removed all incremental plant. RUCO also removed \$19,463 of  
3 O&M expense involving chemical costs which it asserts is due to a calculation error by AAW.

4 CONCLUSIONS OF LAW

5 1. The Company is a public water service corporation within the meaning of Article  
6 XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

7 2. The Commission has jurisdiction over the Company and of the subject matter of the  
8 application.

9 3. Approval of an arsenic cost recovery mechanism is consistent with the  
10 Commission's authority under the Arizona Constitution, Arizona ratemaking statutes and  
11 applicable case law.

12 4. It is in the public interest to approve the Company's request for implementation of  
13 the Step-two ACRM.

14 ORDER

15 IT IS THEREFORE ORDERED that the application by Arizona-American Water  
16 Company for the implementation of Step-Two of the Arsenic Recovery Mechanism for its Sun  
17 City West Water District is approved as discussed herein.

18 IT IS FURTHER ORDERED that the application by Arizona-American Water Company  
19 for its Sun City West Water District for approval of an arsenic cost recovery mechanism surcharge  
20 tariff shall be in accordance with the attached ACRM Schedule BCA-1 whereby the on-going  
21 Step-Two ACRM surcharge supplants the Step-One ACRM surcharge and the recovery of deferred  
22 O&M costs will cease after 12 months from the effective date of the Decision in this proceeding.

23 IT IS FURTHER ORDERED that upon approval of the Step-Two surcharge, the Step-One  
24 surcharge amounts are absorbed into the Step-Two amount and the Step-One surcharge will cease.

25 IT IS FURTHER ORDERED that the recovery of deferred O&M expenses will cease after  
26 the 12-month recovery period.

27 IT IS FURTHER ORDERED that Arizona-American Water Company file with the  
28 Commission an arsenic remedial surcharge tariff consistent with its filing.

1 IT IS FURTHER ORDERED that Arizona-American Water Company shall notify its  
2 customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the  
3 effective date of this Decision.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5  
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**  
7

8 CHAIRMAN

COMMISSIONER

9  
10  
11 COMMISSIONER

COMMISSIONER

COMMISSIONER

12  
13 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
14 Director of the Arizona Corporation Commission, have  
15 hereunto, set my hand and caused the official seal of this  
16 Commission to be affixed at the Capitol, in the City of  
17 Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

18 \_\_\_\_\_  
19 BRIAN C. McNEIL  
20 EXECUTIVE DIRECTOR

21 DISSENT: \_\_\_\_\_

22 DISSENT: \_\_\_\_\_

23 EGJ:BCA:lhmvAH  
24  
25  
26  
27  
28

1 SERVICE LIST FOR: Arizona American Water Company  
2 DOCKET NOS. W-01303A-05-0280, et al.

3  
4 Mr. Daniel W. Pozefsky, Esq.  
5 Residential Utility Consumer Office  
6 1110 West Washington, Suite 220  
7 Phoenix, Arizona 85007

8 Mr. Brent Wallace, Esq.  
9 Casa Grande City Attorney  
10 City of Casa Grande Attorney's Office  
11 510 East Florence Boulevard  
12 Casa Grande, Arizona 85222

13 Mr. Ernest G. Johnson  
14 Director, Utilities Division  
15 Arizona Corporation Commission  
16 1200 West Washington  
17 Phoenix, Arizona 85007

18 Ms. Janice M. Alward  
19 Chief Counsel  
20 Arizona Corporation Commission  
21 1200 West Washington  
22 Phoenix, Arizona 85007  
23  
24  
25  
26  
27  
28

Arizona-American Water Company - Sun City West  
Docket Nos. W-01303A-05-0280 et al  
ACRM Step Two

Schedule BCA-1  
Page 1 of 1

## STAFF RECOMMENDED

	[A] Dec. No. 67093 (No ACRM)	[B] Dec. No. 69173 (ACRM 1)	[C]	[D] Total Current Rates	[E]	[F]	[G]
<b>Monthly Minimum Charges</b>							
Minimum 5/8" Meter	\$ 5.87	\$ 3.70		\$ 9.57			
Minimum 3/4" Meter	\$ 5.87	\$ 3.70		\$ 9.57			
Minimum 1" Meter	\$ 14.97	\$ 9.43		\$ 24.40			
Minimum 1 1/2" Meter	\$ 32.08	\$ 20.20		\$ 52.28			
Minimum 2" Meter	\$ 47.05	\$ 29.63		\$ 76.68			
Minimum 3" Meter	\$ 81.26	\$ 51.17		\$ 132.43			
Minimum 4" Meter	\$ 120.82	\$ 76.08		\$ 196.90			
Minimum 6" Meter	\$ 165.73	\$ 104.35		\$ 270.08			
Minimum 8" Meter	\$ 374.23	\$ 235.87		\$ 610.10			
<b>Commodity Rates, Per 1000 gallons</b>							
<b>Residential (5/8-inch and 3/4-inch):</b>							
0 to 4,000 gallons	\$ 0.8500	\$ 0.4592		\$ 1.3092			
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.4592		\$ 1.7442			
15,001 gallons and over	\$ 1.5510	\$ 0.4592		\$ 2.0102			
<b>All Others:</b>							
0 to 15,000 gallons	\$ 1.2850	\$ 0.4592		\$ 1.7442			
15,001 gallons and over	\$ 1.5510	\$ 0.4592		\$ 2.0102			
<b>Pending Application - 12-months</b>							
	Per Decision and 67093	Dec. No. 69173 (ACRM 1)	ACRM - Step 2 On-going O&M	Total On-going ACRM (Col. B + Col. C)	ACRM - Step 2 Deferred 12-month O&M	ACRM - Step 2 Combined On-going & 12-month	ACRM - Step 2 12-month Total Rates
<b>Monthly Minimum Charges</b>							
Minimum 5/8" Meter	\$ 5.87	\$ 3.70	\$ 0.32	\$ 4.02	\$ 0.32	\$ 4.34	\$ 10.21
Minimum 3/4" Meter	\$ 5.87	\$ 3.70	\$ 0.32	\$ 4.02	\$ 0.32	\$ 4.34	\$ 10.21
Minimum 1" Meter	\$ 14.97	\$ 9.43	\$ 0.81	\$ 10.24	\$ 0.81	\$ 11.05	\$ 26.02
Minimum 1 1/2" Meter	\$ 32.08	\$ 20.20	\$ 1.74	\$ 21.94	\$ 1.74	\$ 23.67	\$ 55.75
Minimum 2" Meter	\$ 47.05	\$ 29.63	\$ 2.55	\$ 32.18	\$ 2.55	\$ 34.73	\$ 81.78
Minimum 3" Meter	\$ 81.26	\$ 51.17	\$ 4.40	\$ 55.57	\$ 4.40	\$ 59.97	\$ 141.23
Minimum 4" Meter	\$ 120.82	\$ 76.08	\$ 6.54	\$ 82.62	\$ 6.54	\$ 89.17	\$ 209.99
Minimum 6" Meter	\$ 165.73	\$ 104.35	\$ 8.97	\$ 113.32	\$ 8.97	\$ 122.30	\$ 288.03
Minimum 8" Meter	\$ 374.23	\$ 235.87	\$ 20.27	\$ 256.14	\$ 20.27	\$ 276.40	\$ 650.63
<b>Commodity Rates, Per 1000 gallons</b>							
<b>Residential (5/8-inch and 3/4-inch):</b>							
0 to 4,000 gallons	\$ 0.8500	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 1.3873
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 1.8223
15,001 gallons and over	\$ 1.5510	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 2.0883
<b>All Others:</b>							
0 to 15,000 gallons	\$ 1.2850	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 1.8223
15,001 gallons and over	\$ 1.5510	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 2.0883
<b>Pending Application - On-going</b>							
	Per Decision and 67093			Total On-going ACRM		ACRM - Step 2 On-going Total Rates	
<b>Monthly Minimum Charges</b>							
Minimum 5/8" Meter	\$ 5.87			\$ 4.02		\$ 9.89	
Minimum 3/4" Meter	\$ 5.87			\$ 4.02		\$ 9.89	
Minimum 1" Meter	\$ 14.97			\$ 10.24		\$ 25.21	
Minimum 1 1/2" Meter	\$ 32.08			\$ 21.94		\$ 54.02	
Minimum 2" Meter	\$ 47.05			\$ 32.18		\$ 79.23	
Minimum 3" Meter	\$ 81.26			\$ 55.57		\$ 136.83	
Minimum 4" Meter	\$ 120.82			\$ 82.62		\$ 203.44	
Minimum 6" Meter	\$ 165.73			\$ 113.32		\$ 279.05	
Minimum 8" Meter	\$ 374.23			\$ 256.14		\$ 630.37	
<b>Commodity Rates, Per 1000 gallons</b>							
<b>Residential (5/8-inch and 3/4-inch):</b>							
0 to 4,000 gallons	\$ 0.8500			\$ 0.4983		\$ 1.3483	
4,001 to 15,000 gallons	\$ 1.2850			\$ 0.4983		\$ 1.7833	
15,001 gallons and over	\$ 1.5510			\$ 0.4983		\$ 2.0493	
<b>All Others:</b>							
0 to 15,000 gallons	\$ 1.2850			\$ 0.4983		\$ 1.7833	
15,001 gallons and over	\$ 1.5510			\$ 0.4983		\$ 2.0493	

Decision No. \_\_\_\_\_

Arizona-American Water Company - Sun City West  
Docket Nos. W-01303A-05-0280 et al  
ACRM Step Two

Schedule BCA-2  
Page 1 of 1

## Company Proposed

Monthly Minimum Charges	Dec. No. 67093 (No ACRM)	Dec. No. 69173 (ACRM 1)	Total Current Rates
Minimum 5/8" Meter	\$ 5.87	\$ 3.70	\$ 9.57
Minimum 3/4" Meter	\$ 5.87	\$ 3.70	\$ 9.57
Minimum 1" Meter	\$ 14.97	\$ 9.43	\$ 24.40
Minimum 1 1/2" Meter	\$ 32.08	\$ 20.20	\$ 52.28
Minimum 2" Meter	\$ 47.05	\$ 29.63	\$ 76.68
Minimum 3" Meter	\$ 81.26	\$ 51.17	\$ 132.43
Minimum 4" Meter	\$ 120.82	\$ 76.08	\$ 196.90
Minimum 6" Meter	\$ 165.73	\$ 104.35	\$ 270.08
Minimum 8" Meter	\$ 374.23	\$ 235.87	\$ 610.10

## Commodity Rates, Per 1000 gallons

Residential (5/8-inch and 3/4-inch):			
0 to 4,000 gallons	\$ 0.8500	0.4592	\$ 1.3092
4,001 to 15,000 gallons	\$ 1.2850	0.4592	\$ 1.7442
15,001 gallons and over	\$ 1.5510	0.4592	\$ 2.0102
All Others:			
0 to 15,000 gallons	\$ 1.2850	0.4592	\$ 1.7442
15,001 gallons and over	\$ 1.5510	0.4592	\$ 2.0102

Pending Application - 12-months	Per Decision Nos. 67093 & 69173	ACRM - Step 2 On-going O&M	ACRM - Step 2 Deferred 12-month O&M	ACRM - Step 2 12- month Total Rates
Monthly Minimum Charges				
Minimum 5/8" Meter	\$ 9.57	\$ 0.36	\$ 0.36	\$ 10.29
Minimum 3/4" Meter	\$ 9.57	\$ 0.36	\$ 0.36	\$ 10.29
Minimum 1" Meter	\$ 24.40	\$ 0.91	\$ 0.91	\$ 26.22
Minimum 1 1/2" Meter	\$ 52.28	\$ 1.95	\$ 1.95	\$ 56.17
Minimum 2" Meter	\$ 76.68	\$ 2.87	\$ 2.87	\$ 82.41
Minimum 3" Meter	\$ 132.43	\$ 4.95	\$ 4.95	\$ 142.34
Minimum 4" Meter	\$ 196.90	\$ 7.36	\$ 7.36	\$ 211.62
Minimum 6" Meter	\$ 270.08	\$ 10.09	\$ 10.09	\$ 290.27
Minimum 8" Meter	\$ 610.10	\$ 22.95	\$ 22.95	\$ 656.00

## Commodity Rates, Per 1000 gallons

Residential (5/8-inch and 3/4-inch):				
0 to 4,000 gallons	\$ 0.8500	\$ 0.0439	\$ 0.0439	\$ 0.9379
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.0439	\$ 0.0439	\$ 1.3729
15,001 gallons and over	\$ 1.5510	\$ 0.0439	\$ 0.0439	\$ 1.6389
All Others:				
0 to 15,000 gallons	\$ 1.7442	\$ 0.0439	\$ 0.0439	\$ 1.8321
15,001 gallons and over	\$ 2.0102	\$ 0.0439	\$ 0.0439	\$ 2.0981

Pending Application - On-going	Per Decision Nos. 67093 & 69173	ACRM - Step 2 On-going O&M	ACRM - Step 2 Deferred 12-month O&M	ACRM - Step 2 On-going Total
Monthly Minimum Charges				
Minimum 5/8" Meter	\$ 9.57	\$ 0.36	\$ -	\$ 9.93
Minimum 3/4" Meter	\$ 9.57	\$ 0.36	\$ -	\$ 9.93
Minimum 1" Meter	\$ 24.40	\$ 0.91	\$ -	\$ 25.31
Minimum 1 1/2" Meter	\$ 52.28	\$ 1.95	\$ -	\$ 54.23
Minimum 2" Meter	\$ 76.68	\$ 2.87	\$ -	\$ 79.55
Minimum 3" Meter	\$ 132.43	\$ 4.95	\$ -	\$ 137.38
Minimum 4" Meter	\$ 196.90	\$ 7.36	\$ -	\$ 204.26
Minimum 6" Meter	\$ 270.08	\$ 10.09	\$ -	\$ 280.17
Minimum 8" Meter	\$ 610.10	\$ 22.95	\$ -	\$ 633.05

## Commodity Rates, Per 1000 gallons

Residential (5/8-inch and 3/4-inch):				
0 to 4,000 gallons	\$ 0.8500	\$ 0.0439	\$ -	\$ 0.8939
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.0439	\$ -	\$ 1.3289
15,001 gallons and over	\$ 1.5510	\$ 0.0439	\$ -	\$ 1.5949
All Others:				
0 to 15,000 gallons	\$ 1.7442	\$ 0.0439	\$ -	\$ 1.7881
15,001 gallons and over	\$ 2.0102	\$ 0.0439	\$ -	\$ 2.0541

Decision No. \_\_\_\_\_



ARSENIC PLANT AND O&M EXPENSES

Line No.		Company Proposed [A]	Staff Adjustment [B] Staff	Staff Recommended [C]
1	Arsenic Plant Revenue Requirement			
2	Gross Arsenic Plant in Service/Rate Base Step 2	\$ -	\$ -	\$ -
3	Accumulated Depreciation of Arsenic Plant (Step 1)	\$ -	\$ -	\$ -
4	Net Arsenic Plant in Service/Rate Base Step 2 (Ln.2 - Ln. 3)	\$ -	\$ -	\$ -
5	Depreciation rate on Step 2 (Sch.BCA-3 Ln.30 Col.L, Rounded)	2.78%		
6	Depreciation expense Step 2 (Sch.BCA-3 Ln. 30 Col. K)	\$ -	\$ -	\$ -
7	Depreciation expense net of tax <sup>1</sup> (Ln.6 x (1-Tax Rate)	\$ -	\$ -	\$ -
8	Recoverable O&M costs - Ongoing	\$ 175,096	\$ (19,463)	\$ 155,633
9	Recoverable O&M costs-Ongoing net of tax <sup>1</sup> (Ln.8 x (1-Tax Rate)	\$ 107,511	\$ (11,950)	\$ 95,561
10	Arsenic Operating Income Step 2 -(Ln. 7 + Ln. 9)	\$ (107,511)	\$ (11,950)	\$ (95,561)
11	Rate of return (Ln.10 / Ln. 2)	-	-	-
12	Required Rate of Return <sup>2</sup>	6.50%	0.00%	6.50%
13	Required Operating Income on Net Arsenic Plant in Service Step 2 (Ln.4xLn.12)	\$ -	\$ -	\$ -
14	Operating Income deficiency Step 2 (Ln.13 - Ln. 10)	\$ 107,511	\$ 11,950	\$ 95,561
15	Gross revenue conversion factor <sup>2</sup>	1.62863		1.62863
16	Revenue deficiency (Ln.14 x Ln.15)	\$ 175,096	\$ (19,463)	\$ 155,633

Explanation of Adjustments:

(1) Adjustment to remove double counted O&M expense

(2) Net effect of adjustment 1

<sup>1</sup>38.5986 % tax rate per Decision No. 67093

<sup>2</sup>Decision No. 67093

Line No.	Growth	[A] Customers	[B] Total Gallons Sold Gallons Sold Per Cust.	[C] Estimated Customers at 31-Dec-07	[D] Monthly Minimum	[E] Minimum Multiples	[F] Equivalent Meters	[G] Monthly Base	Fixed Increment			[J] Deferred Total
									Base	Monthly Deferred	Base Total	
1	Dec. 2006 (Year 1)	15,416	2,008,303	14,375	\$ 9.57	1.0	14,380	\$ 0.32	\$ 54,853	\$ 0.32	\$ 54,853	
2	Dec. 2007 (Year 2)	15,428	1,976,010	3	3	1.0	3	0.32	11	0.32	11	
3	Year 2 minus Year 1	12	(32,293)	212	24.40	2.5	541	0.81	2,065	0.81	2,065	
4	Percentage Change	0.08%	-1.61%	546	52.28	5.5	2,981	1.74	11,372	1.74	11,372	
5	Avg Gallons (Col B Ln 1 + Col B Ln 2 + 2)		1,992,157	277	76.68	8.0	2,220	2.55	8,467	2.55	8,467	
6				15	132.43	13.8	206	4.40	784	4.40	784	
7				2	196.90	20.6	41	6.54	157	6.54	157	
8				1	270.08	28.2	28	8.97	108	8.97	108	
9	Meter Size			-	35.22	3.7	-	1.17	-	1.17	-	
10	5/8-inch			-	52.84	5.5	-	1.76	-	1.76	-	
11	3/4-inch			-	70.45	7.4	-	2.34	-	2.34	-	
12	1-inch			-								
13	1.5-inch			-								
14	2-inch			-								
15	3-inch			-								
16	4-inch			-								
17	6-inch			-								
18	4-Inch Fire			-								
19	6-Inch Fire			-								
20	8-Inch Fire			-								
21	Total	15,430	15,442	15,436			20,401		\$ 77,817		\$ 77,817	
22												
23												
24												
25	Calculation of Surcharge				Commodity Surcharge							
26	Total costs to be recovered (Sch. 5 Col A Ln 16)			\$ 155,633	Minimum Surcharge							
27	Minimum Revenue (Col B Ln 26 + 2)			\$ 77,817	\$ 77,817							
28	Commodity Revenue (Col B Ln 26 + 2)				\$ 77,817							
29												
30	Monthly Increment Per Equivalent Meter											
31	Equivalent Meters (Col F Ln 22 x 12 Months)			244,809								
32	Minimum Surcharge (Col C Ln 27 + Ln 31)			\$ 0.32								
33	Average Gallons (Col B Ln 5)				1,992,157							
34	Commodity Surcharge (Col D Ln 28 + Ln 35)				\$ 0.0391							
35					Commodity Surcharge							
36					Minimum Surcharge							
37					\$ 77,817							
38					\$ 77,817							
39												
40	Calculation of Deferred O&M Surcharge											
41	Total deferred O&M costs to be recovered (Sch. 5 Col A Ln 8)			\$ 155,633								
42	Monthly Minimum Revenue (Col B Ln 41 + 2)				\$ 77,817							
43	Commodity Revenue (Col B Ln 41 + 2)				\$ 77,817							
44												
45	Monthly Increment Per Equivalent Meter											
46	Equivalent Meters (Col F Ln 22 x 12 Months)			244,809								
47	Minimum Surcharge (Col C Ln 42 + Ln 46)			\$ 0.32								
48	Average Gallons (Col B Ln 5)				1,992,157							
49	Commodity Surcharge (Col D Ln 43 + Ln 50)				\$ 0.0391							
50												
51												
52												

Arizona-American Water Company  
 Sun City West Water District  
 Docket No. W-01303A-05-0280 et al.  
 12 Months Ending December, 2007  
 Revised Typical Bill Analysis - ACRM Step-2

Schedule BCA-5

## Residential Customers

Line No.	[A] Gallons Consumption	[B] Step One Present Rates	[C] Step Two 12-month Staff Recommended Rates	[D] Percent Increase
1				
2	-	\$ 9.57	\$ 10.21	6.6%
3	1,000	\$ 10.88	\$ 11.59	6.6%
4	2,000	\$ 12.19	\$ 12.98	6.5%
5	3,000	\$ 13.50	\$ 14.37	6.4%
6	4,000	\$ 14.81	\$ 15.76	6.4%
7	5,000	\$ 16.55	\$ 17.58	6.2%
8	6,000	\$ 18.30	\$ 19.40	6.0%
9	7,000	\$ 20.04	\$ 21.22	5.9%
10	8,000	\$ 21.78	\$ 23.04	5.8%
11	9,000	\$ 23.53	\$ 24.87	5.7%
	9,430	\$ 24.28	\$ 25.65	5.7%
12	10,000	\$ 25.27	\$ 26.69	5.6%
14	11,000	\$ 27.02	\$ 28.51	5.5%
15	12,000	\$ 28.76	\$ 30.33	5.5%
16	13,000	\$ 30.50	\$ 32.16	5.4%
17	14,000	\$ 32.25	\$ 33.98	5.4%
18	15,000	\$ 33.99	\$ 35.80	5.3%
19	16,000	\$ 36.00	\$ 37.89	5.2%
20	17,000	\$ 38.01	\$ 39.98	5.2%
21	18,000	\$ 40.02	\$ 42.07	5.1%
22	19,000	\$ 42.03	\$ 44.15	5.0%
23	20,000	\$ 44.04	\$ 46.24	5.0%
24	21,000	\$ 46.05	\$ 48.33	4.9%
25	22,000	\$ 48.06	\$ 50.42	4.9%
26	23,000	\$ 50.07	\$ 52.51	4.9%
27	24,000	\$ 52.08	\$ 54.60	4.8%
28	25,000	\$ 54.10	\$ 56.68	4.8%
29				
30				
31	Average Residential Consumption (1,000 Gal)	9.43		
32	Average Residential Bill	\$ 24.28	\$ 25.65	5.7%
33				
34	Monthly Minimum Rate	\$ 9.57	\$ 10.21	6.6%
35	Commodity Rate 0 to 4,000 gallons	1.3092	1.3873	6.0%
36	Commodity Rate 4,001 to 15,000 gallons	1.7442	1.8223	4.5%
37	Commodity Rate 15,001 gallons and over	2.0102	2.0883	3.9%

Decision No. \_\_\_\_\_